ILLINOIS BUSINESS REVIEW

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HIGHLIGHTS OF BUSINESS IN JULY

Industrial output dipped about 4 percent in early July, as the steel strike made itself felt. The dip followed a minor decline — less than 1 percent — in June, on a seasonally adjusted basis. The June level of industrial production was, however, 41 percent above the 1947-49 average and about 1.5 percent over the same month a year ago.

Repercussions from the steel strike hit other areas, notably coal mining and freight traffic, to a limited extent. Shortages of certain types of steel also developed. But as expected, the effects during July were not widespread. Normally, most steel-users carry stocks sufficient for four to six weeks' operations, and prior to the strike these stocks were substantially larger than normal.

Retail Sales Strong

The strength shown by department store sales during the initial half of 1956 continued into the first two weeks of July. They were up 2 to 3 percent, seasonally adjusted, from June, and from last year's level.

Retail sales in June, the latest reported, were $16.6 billion. After seasonal adjustment, the total showed no change from May. It was, however, 4 percent above June a year ago and consistent with the generally higher levels registered this year as compared with last. Business groups showing the largest gains from June, 1955, were drug and proprietary, up 13.6 percent; gasoline service stations, up 12.8 percent; food, up 12.6 percent; apparel, up 12.3 percent; and general merchandise, up 9.6 percent. By contrast, the lumber, building, and hardware group showed no change, whereas the automotive group was down some 7 percent.

Construction at Record Levels

New construction in June, seasonally adjusted, was at a rate little changed from May but slightly above the June rate of last year. The total of construction in the first six months of this year reached $20 billion, an all-time high, and 2 percent above the comparable period for 1955.

The records being set in this field of activity conceal shifts in the importance of the major types of construction. Weakness in private residential construction is apparent, with activity in June down more than seasonally from May and 12 percent below year-ago levels. Housing starts in June were at a seasonally adjusted annual rate of 1,070,000 units, the lowest in two and a half years. Indications are that the downward trend will continue, at least over the next several months. The January-June total of requests to the Veterans Administration for appraisal of new construction plans was 38 percent below the total for the same period in 1955.

Employment High

Employment in June exceeded the 66.5-million mark, the highest ever and 2.5 million above the number employed a year ago. Sectors with major gains were construction, up more than half a million from 1955; wholesale and retail trade, up almost half a million; services, close to 300,000; and government (Federal, state, and local), also up 300,000. Manufacturing employment, on the other hand, was down almost 200,000 from previous-year levels and was about 700,000 below the 1953 high.

Unemployment for June of 2.9 million equaled a rate of about 4 percent. This rate was down slightly from January and February but was close to that of the past few months and also to the rate prevailing a year ago.

Government Runs Budget Surplus

With high employment and incomes helping to swell Federal revenues, the government realized a budget surplus in the fiscal year ended June 30. Revenues of $68.1 billion were the highest ever and exceeded by $3.3 billion the previous high of fiscal 1953. When matched against expenditures of $66.4 billion for the fiscal year just ended, they yielded a surplus of about $1.7 billion. The expenditure total was slightly below that for the fiscal year ending in mid-1954. However, it was almost $2 billion above expenditures for the year closing in June, 1955.

Because of the annual vacation of the University Print Shop this issue of the *Review* is reduced in size. It omits the usual statistical data, which are generally not yet available. We shall be glad to send copies of the missing tables to anyone requesting them. The next issue will contain the usual 12 pages.

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V LEWIS BASSIE, *Director* — RUTH A. BIRDZELL, *Editor of Publications*

ROBERT FERBER, *Research Associate Professor*

Research Assistants

DAVID J. BLOMBERG — PATRICIA P. WEBBER

DONALD C. STREEVER, JR.

Investment Policy

There are two ways to ensure gains or prevent losses in the stock market. The first is to time purchases in such a way that price movements will work in the buyer's favor. The second is to select stocks that will produce a good return even though business and market conditions turn adverse.

At times, however, the market carries to extremes, so that the second of these procedures becomes almost inoperative. The present is one of those situations. Selection now offers little protection. In fact, many of the "best" stocks — judged by such criteria as "growth" — are the most overvalued.

The Market Is Vulnerable

By the time of President Eisenhower's heart attack last summer, the market had risen to a point that made it definitely vulnerable. Ratios of prices to earnings and dividends stood at levels usually experienced near the peaks of past booms. The Dow-Jones Industrial Index was over a hundred points too high by the standards of reasonable past relationships to earnings and dividends. Only in 1928 and 1929 were the disparities greater.

Since then, the market has moved up further, remaining in a 10-percent range whose lower limit approximates the level reached a year ago. Earnings and dividends have also risen further, but with stock prices currently running near the top of the range, the disparity has not been greatly changed. Current earnings reports look favorable because they give comparisons with the lowest months of 1955. With some minor exceptions, industrial profits are now being squeezed by increased competition and rising costs. There is hardly any prospect that earnings and dividends can rise to the extent necessary to firm up the price level.

Last year we described the structure of the stock market and business conditions underlying it as a "house of cards." Since then another story has been added. It is still a collection of mutually supporting instabilities, sustained by a spurt of unfounded optimism. The fact that such a condition can persist for a year does not mean it can be expected to continue indefinitely. The 1929 break ended a period of extreme inflation of prices which had also persisted for more than a year.

No License for Optimism

One of the anomalies of the current situation is that the market has taken the steel strike as a license for optimism. By a curious twist of logic the strike has been made a force for inflation. It is assumed that the strike will do all sorts of things to ensure a "quick rebound."

We think it correct to argue — as we did in April, 1949 — that strikes are not seriously deflationary. But they are deflationary, if anything. Only in the very superficial aspects of rising wages and prices in the steel industry are they "inflationary." Such "advances" in a single industry do not necessarily increase total demand in real terms and under certain conditions are likely to curtail it. Their most important inflationary impact has already been experienced in the months prior to the shutdown — in the drive for inventories of steel and for products made of steel.

The "quick rebound" theory is usually couched in terms of backlogs of demand. Most of this talk would sound better if it came after something significant had been adversely affected. Up to this point, hardly anything has been touched.

One common assumption is that the shutdown will produce an inventory boom after operations are resumed, as in 1952. This might be the consequence if inventories had been no more than normal at the time of the shutdown. But actual inventories were excessive, on the average, by well over a month's supply. Unless the strike lasts long enough to eliminate surpluses and create deficiencies, there is no reason to expect a spurt of production above the level of current needs in the new circumstances. Liquidation occurring in the course of a strike is not necessarily any less deflationary than liquidation in the absence of a strike.

The comparison with 1952 is the worst kind of analogy. Then, the military program was in a strong upward phase; inventories were at a minor cyclical low, completing a reaction from the excesses of early 1951; and housing, autos, and consumer credit had been subject to restrictions for more than a year. About the only thing the same now is the strike.

Why Bonds Are Better

Today, residential construction has been going down for more than a year and seems likely to continue; the demand for mortgage loans will follow the same course. Auto sales have slackened; the demand for consumer credit has eased and seems likely to continue in the same direction until some liquidation of debt is effected. Inventory policy may have been pushed all the way over from accumulation to liquidation by the steel strike. All of these have been big items in the demand for funds that has tightened the money market.

Federal Reserve policy currently is designed, not to tighten the market further, but merely to maintain the tightness already effected. If business weakens, there will be a quick shift toward easier money. Even if it should just hold level in the months following the resumption of steel production, there will be pressure for some easing. This implies, of course, that bond prices will move up.

The conclusion for investment policy is that markets for bonds and stocks are biased in opposite directions, as they usually are at the peak of a boom. After the letdown, stock prices will fall and bond prices rise. The situation holds the opportunity for a double profit. There may never be a better time to switch from stocks to bonds.

VLB

THE FROZEN FOOD INDUSTRY

The introduction and development of quick-frozen foods has had a far-reaching effect upon the modern American family. Not only has a great deal of the drudgery of food preparation been eliminated, but the term "out-of-season" has lost much of its meaning. Many garden-fresh fruits and vegetables and ocean-fresh sea foods have been made available throughout the year; and what once were local or regional foods are now available throughout the nation.

Growth of the frozen foods industry has been felt throughout our national economy. Some 30,000 workers are directly employed by the industry, in addition to thousands of persons whose services are called on in processing and distribution. Many allied and subsidiary industries, such as construction, farm equipment, packaging, refrigeration, and rail and truck transportation have also shared in the newly created business.

Discovery and Development

There were many successful experiments made in the quick-freezing of foods, both in America and in Europe, but early attempts to commercialize the process proved unsuccessful. Such methods consisted of immersing fish in super-cooled brine, freezing them as quickly as possible, so as to keep the fish tasty and ocean-fresh. However, consumers tended to associate the name "frozen" with slow-frozen food kept in cold storage and were consequently highly skeptical.

It was not until the 1920's that Clarence Birdseye — hailed as the father of frozen foods — initiated the quick-freezing of perishable foods in consumer packages, eliminating the brine immersion process of freezing. His original discovery of quick-freezing took place in Labrador in 1915 while he was trapping for furs. He noticed that when meat was left out in temperatures of — 50°F. it froze solid almost at once, and when thawed and cooked months later it still retained its fresh flavor. Other experiments with fish, frozen in the arctic air, convinced him that it was quick-freezing that made the difference. When he returned to the United States he set about developing this method of freezing on a commercial basis, and in 1923 perfected the "belt-froster," which used dry ice as a refrigerant.

In 1924 he organized the General Sea Foods Corporation. Within two years the original belt-froster had grown into a twenty-ton quick-freezer, but the quick-frozen products did not sell. Consumers were still skeptical of frozen foods and the problem of distribution became critical, for there was no way to keep the products frozen as low temperatures while they were on display in the stores. By 1928, with more than 1.5 million pounds of frozen sea foods still unsold from the previous summer, it became obvious that a new method of distribution was needed.

Birth of an Industry

In June, 1929, the Postum Company, later named the General Foods Corporation, acquired all rights to the "Birds Eye" patents and properties. This was the beginning of a long struggle for survival and marked the birth of the frozen foods industry as we know it today.

In 1930 General Foods developed one of the largest promotional campaigns in the history of any new industry. For forty weeks Springfield, Massachusetts, was the scene of an experiment which showed consumers' skepticism of frozen foods could be converted into enthusiasm. Frozen food cabinets, each costing $1,500, were installed free of charge in 18 stores, and 26 different frozen food products were shipped to them on consignment. Even though the local campaign was a success in itself, millions of dollars had yet to be spent on adequate transportation and storage facilities, on improving the freezing process, and on promotional activities before national public acceptance gradually removed the frozen food prejudice. It was not until 1937 that Birds Eye frozen foods finally managed to creep out of the red.

World War II gave the industry a shot in the arm. The armed forces made large purchases and civilian consumers with high incomes could pay premium prices for unusual and convenient foods. Hundreds of new companies entered the field, and large volumes of poor quality frozen foods were produced by inexperienced packers. By 1947, frozen foods had lost a great deal of their public support, and approximately 200 firms went out of business during the next two years for lack of a market. However, the industry gradually regained its lost ground.

The Industry Today

In 1955 approximately 1,550 commercial frozen food packers produced 4.4 billion pounds of products valued at $1.7 billion as compared with 1938 when 40 packers turned out 265 million pounds valued at $65 million, according to *Quick Frozen Foods*. There are currently some 300 varieties of frozen foods packed in over 700 combinations. The largest single item sold is orange juice concentrate, while peas are the biggest single vegetable, and strawberries the outstanding fruit.

Nine major packers do almost one-third of the total volume of frozen food business. They are Birds Eye, Minute Maid-Snow Crop, Campbell-Swanson, Libby, PictSweet-Honor Brand, Seabrook, Morton, Pasco, and Dulany. Mergers have played an important role in the expansion of the industry, and many large corporations have seriously considered frozen foods as a means of diversifying their operations.

Frozen foods are packed in every state, to some extent, but the bulk is done in the West Coast, Gulf, and northeastern states. California, New York, New Jersey, Oregon, and Washington lead in vegetables, and these same states, together with Florida, Michigan, and Pennsylvania account for most of the fruit freezing. Illinois, although not a major commercial freezing state, ranks as the leading state in total allied and subsidiary industries, namely, home freezing equipment, transportation, warehousing, farm equipment, food processing, and refrigerated locker storage plants.

RECENT ECONOMIC CHANGES

Prices Rising

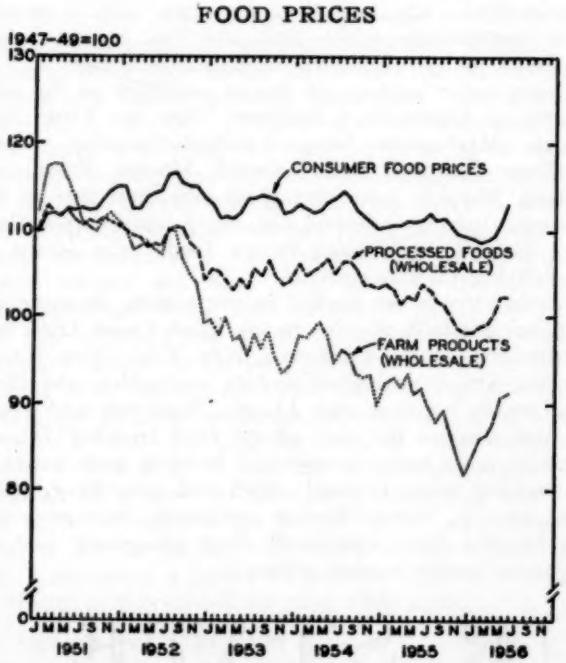
Prices on the average were on the way up through the first half of 1956. At the consumer level the rise from December to June was only about 1 percent as prices for consumer goods and services continued to move narrowly, with advances in some lines, particularly food in May and June, more than offsetting declines in others. In June consumer food prices rose more sharply than since January of 1951, by 2 percent, and were up 1.7 percent over their level of a year ago. This increase was mainly responsible for the rise in the all-items index, which was up to an all-time high in June, exceeding slightly the previous peak reached in October, 1953.

The advance in food prices indirectly reflects the improvement in prices received by farmers. From the recent low of last December until June, farm prices received increased 11 percent. This rise has carried over into wholesale prices of processed foods and in turn to consumer prices (see chart). Wholesale prices of processed foods have risen 4 percent since December. The reversal in wholesale prices of farm products and processed foods since the end of last year has reinforced the advance in industrial prices that began in the second quarter of 1955. Thus the all-items wholesale price index in June was 4 percent above June a year ago.

Vacancy Rates Hold Firm

Vacancy rates for dwelling units were unchanged from the fourth to the first quarter according to the latest Bureau of the Census survey. Units for sale or rent amounted to 2.7 percent of the total housing stock compared with 2.3 percent in the second and third quarters of 1954 and 1.6 percent in 1950. As in the fourth quarter of last year, 2.2 percent of vacant available units were for rent and 0.5 percent for sale. The West and South continued to have the highest vacancy rates and the Northeast and North Central regions the lowest.

FOOD PRICES



Source: Bureau of Labor Statistics.

Profits Continue High

In the opening three months of 1956, sales and earnings of manufacturing corporations were above any other first quarter on record, though down from last year's fourth quarter. Sales amounted to $71.9 billion in the first quarter compared with $73.6 billion in the fourth quarter and $65.6 billion in the first quarter of 1955.

Profits after taxes were $3.8 billion, down $400 million from the fourth quarter but a half billion over their year-ago level. The largest advances from the first quarter of 1956 were registered by the stone, clay, and glass, iron and steel, nonferrous metals, and machinery industries. Only six industries reported cuts from the first three quarters of last year. The motor vehicle and lumber groups each had reductions of 20 percent. Lesser declines were reported by the electrical machinery, transportation, instruments, and leather groups.

Dividend Payments Higher

With profits remaining high, corporations have continued to pay out an increasing volume of dividends. In June cash dividend payments totaled $1.6 billion, 17 percent above June, 1955. In the first half of 1956 dividend disbursements totaled $5.4 billion, also 17 percent above January-June, 1955.

In manufacturing, dividends were up a fifth over the first half of last year whereas disbursements by nonmanufacturing industries rose about 10 percent. Nonferrous metal firms upped disbursements by nearly 40 percent. Gains in other manufacturing industries were more moderate, with transportation equipment (other than autos) at the bottom of the list because of reduced extras in early 1956. Among nonmanufacturing firms, mining increased payments by 20 percent and financial firms paid out 10 percent more in the first half of this year than last. Payments in other nonmanufacturing groups, although up less than these two, rose significantly from last year.

State and Local Government Investment

In the postwar period state and local governments have contributed significantly to our gross national product in the form of capital expenditures of various types. Between 1947 and 1954 state and local governments' investment outlays totaled $48.5 billion and accounted for 2 percent of GNP, according to estimates of the Department of Commerce. Of this total, almost 60 percent has gone into highways and educational facilities.

The most common means of financing these expenditures has been borrowing. Between 1947 and 1954, 51 percent of state and local government capital outlays were financed by borrowing, 8 percent with Federal aid, and the remainder from current revenues.

Most state and local government debt is long-term debt guaranteed by the taxing power of the governments. Such debt amounted to 77 percent of the total outstanding in 1954. However, since limitations exist in most states on the total amount of outstanding indebtedness, state and local governments have frequently set up special authorities or other independent organizations which conduct work and secure financing outside of the debt ceilings. As a result, the amount of non-guaranteed debt outstanding has been rising rapidly — from 17 percent of the total in 1951 to 23 percent in 1954.

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Big Freeze

Home freezer capacity passed the three-billion-pound mark last year. More than one million units were sold during 1955, fewer than in the years of the food plans but 8 percent more than 1954 and more than six times as many as in 1946. In addition the average size of home freezer sold last year, over 15 cubic feet, was almost twice as large as that sold in 1946.

As may be seen in the accompaning chart, capacity has far outpaced the retail frozen fruit and vegetable pack. Meat probably fills up much of the remaining space, especially in farm freezers, with concentrated juices, ice cream, and baked goods also sharing the zero temperatures. Because much of the food preserved in this way is prepared in the home there is no accurate way to measure the relative importance of the different goods.

The proportion of the consumer food dollar spent on commercially frozen goods (excluding dairy products) rose from less than 1 percent in 1946 to 3.4 percent in 1954. Measured in dollar value of sales, frozen poultry was by far the most important, accounting for about one-third of the total. Frozen vegetables ranked second with just over one-sixth of the total, and concentrated juices followed close behind.

Census of Business

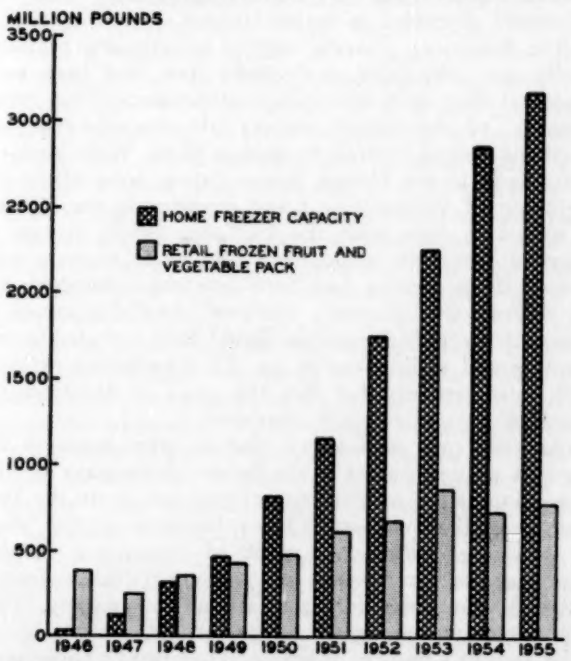
A wealth of economic data has become available with the publication of the *1954 Census of Business,* covering sales, payroll, and employment developments in trade and service industries. The material has been prepared on state and local bases as well as for the nation. The many publications in this series are available from the Bureau of the Census, Washington 25, D. C.

The census of retail trade covers establishments which sell merchandise to personal, household, and farm users, excluding businesses operated by institutions and open only to their personnel or members. The data are classified by kind of business, rather than by commodity. Two important differences exist between the 1948 and 1954 censuses. One is the difference in cutoff point in enumeration, establishments with annual sales of less than $2,500 being eliminated from the recent study whereas that in 1948 included those having sales of at least $500; this may account for some of the drop in number of businesses, although it probably does not affect sales totals appreciably. Also, in the 1954 reports, sales and excise taxes are included in total sales, whereas they were not in 1948; the effects of this difference vary a great deal by locality and type of store.

Wholesale trade includes businesses selling primarily to retailers, industrial, commercial, institutional, and professional users and those acting as agents for such users. They are divided into two groups, merchant wholesalers and other, which covers sales branches and offices of manufacturing and mining companies, petroleum bulk plants and terminals, merchandise wholesalers and brokers, and assemblers of farm products. Excluded from the 1954 data are establishments with no paid employees and milk bottling plants which have been classed as manufacturing; these groups were included before.

Selected services are also covered in the recent *Census of Business.* Included are hotels and other lodging places, personal services, miscellaneous business services (except accounting and auditing), automobile repair services, miscellaneous repair services, motion pictures, and amusement and recreation services. In this section of the census, too, there are significant differences from the preceding census. First, a different technique of enumeration was used; second, in 1954 establishments not operating at year-end but operating at some time during the year were included; third, the minimum size was doubled in 1954; and fourth, media costs of advertising agencies were included in the more recent census.

POSTWAR GROWTH IN HOME FREEZING



Source: *1956 Frozen Food Fact Book and Directory.*

Vacation Valuables

Motor traveling made easy is the object of several new items on the American market. To withstand the hours of sitting which plague many a driver on otherwise pleasant excursions, the Niagara Manufacturing and Distributing Company of Adamsville, Pennsylvania, has come up with the "Carssage." It is a flat cushion with built in cycle-massage motors which plug into the cigarette lighter.

Luggage problems may be at least partially solved by a new item from Canada. It is a light metal frame holding a storage bag for carrying clothes without creasing. When not in use, the frame and bag collapse into a small package. It is manufactured by Hugh Carson Company, Limited, 72 Albert Street, Ottawa.

Postwar Industrial Expansion

In their efforts to keep pace with consumer (and resultant business and institutional) demand, most manufacturing industries have grown very rapidly in the postwar period. Recently the first data from the *1954 Census of Manufactures* have been published by the Department

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TOWARD USEFUL BUSINESS FORECASTING

ARTHUR C. MEYERS, JR.
Associate Professor of Economics, St. Louis University

The study of business cycles traditionally has concerned itself with the nature of the problem, its causes, some of its effects, and proposed solutions. Added to these areas is the problem of forecasting. Often the implication is that this a separate subject of inquiry unrelated to the other aspects of the problem. It is seldom emphasized that forecasting or foretelling any sort of event is intimately related to the nature of the event foretold, the causes of the event, and what generally can be done about it.

The man of action, no matter what his role — leader, lawmaker, or executive — and no matter whether his field is government or business, must have some principles to guide him as he uses forecasts of business activity. He must recognize useful and valuable forecasts. He must judge when forecasts are of limited value. He must help the forecaster realize that some forecasts help and some do not help those who plan and act.

The Useful Forecast

A first principle can be stated. The most useful forecasts are those directed to developments or events that come as single, well-defined situations that the economic system must cope with. It is clear that we must want to do something about these situations and be able to do something. Intention is not sufficient. We must have capacity to do the necessary things.

In the field of economics this principle has certain implications. A turning point in business activity — be it a reversal of a downward or an upward movement — is an event clearly definable and understandable by all. Forecasters should concentrate on foretelling this sort of event. Information of this nature is necessary and valuable if one is to cope with changing business conditions. It is the one important event in business activity.

In addition to this all-important event, advance information on one other important aspect of business fluctuations is helpful. The extent of the movement of business activity, stated in some relative terms, such as a number of points in an index of production, or a certain number of unemployed, or whatever criterion suits the person responsible for action, is the second concern. This development cannot be separated from the time factor. Our concern here is the length of time the movement will take as well as its degree. The economy has a capacity to sustain itself for a while. A fall in business activity, even though severe, that does not persist over a long period of time could call for little or no action. Riding it out could be the appropriate course of action.

It can be observed at this point that if the business forecaster is able to forecast turning points and the degree or extent of change, he has done his job. Successful forecasts of this kind accomplish many things. Planning of either preventive or remedial action is permitted.

Greater proficiency at this kind of forecasting may bring us to the point where our views of criteria, such as the number of workers unemployed or the percentage of the work force unemployed, are changed. Clearly such criteria based on after-the-fact analysis force us to act to remedy a condition that may have been preventable. Such criteria may be replaced by other criteria. A second accomplishment of this type of forecasting would be the assistance it could provide in determining the scope of our effort. The magnitude of the problem would be known. Forces could be marshaled to meet the problem. Excessive force and resources would not wastefully be brought to bear on the problem. Finally, no matter what approach is taken or what resources are mustered to solve a problem or cope with a situation, doing things takes time. Action must be under way so that lags between action and result do not defeat the purpose of the action.

Some Useless Forecasts

Many forecasts serve little purpose because they do not answer fundamental questions. Every reader of economic literature has met such forecasts at one time or another. It is clear that foretelling has no value when nothing can be done about what is foretold. Let us take cases where total disaster is foretold. In such cases, nothing can be done, first, because the thing foretold is overwhelming (for example, sudden death or an atomic explosion without warning), or second, because there are no means to cope with it.

In the case of an overwhelming disaster there is no better solution to the problem than that which St. Francis of Assisi suggested. It is told that he was asked, while feeding pigeons, what he would do if he knew that death was to come in five minutes. His prompt answer was that he would continue to feed pigeons.

If there are no means to cope with foretold disaster it is certainly useless to foretell it. The information that one will die of cancer is a dubious contribution to one's knowledge at the present state of medical knowledge. No purpose is served. Oh, one purpose is always cited as being served — it allows one to put his affairs in order.

If it is pointed out that there can be cases of less-than-total disaster where nothing can be done, then our observation is — this is minor tragedy and what we previously discussed is major tragedy.

The foregoing remarks suggest several observations. Surely our past great depressions have not been total disasters; they were less-than-total disasters. They were, however, of the second variety of disaster — the one where no means existed to cope with it. With business cycle study in the United States dating from about the beginning of World War I and considering the absence of means to cope with the 1929 depression, it can be observed that little could have been done to cope with it even if its coming had been foretold accurately and the forecast was generally accepted. Available means to cope with the 1929 depression should have included understanding and willingness to act. All depressions prior to 1929 must certainly fall into the class of developments that were beyond available remedies.

Another type of forecast that is often made is the one that vaguely refers to the future of business activity as continuing an established progression. It is the type of forecast that one writer has referred to as the "more of the same" forecast. Extent of movement, turning points, and such references are omitted. A little reflection indicates that many forecasts are of this variety. That such forecasts train good forecasters or are capable of being used as a basis of policy certainly can be questioned.

Diagnosis Versus Forecasting

As we learn more and more about fluctuations in business activity it is to be hoped that economics will see a development that parallels that which has taken place in medicine. With limited knowledge of the human body, medicine in earlier times pretty much had to predict what was wrong with an individual and then often wind up after death checking the prediction. Over and against prediction (prognosis) we have always had analysis of the situation (diagnosis). In economics, as in medicine, the ideal is to know how to diagnose correctly. More and more we should talk in terms of facts (symptoms) and less and less in terms of probabilities.

A comment in this area is that the recent textbooks in forecasting are coming to the diagnosis point of view. Using national income techniques and data, and other information available on activity in various sectors of the economy, a very satisfactory job of piecing together the facts and drawing conclusions about employment and gross national product is being done. More reliable information about the government budget is becoming available. Governments assist by seldom spending much less than they predict they will. Investment forecasts and consumer forecasts of all kinds are being perfected. When these various forms of behavior are accurately foretold, I submit that one is diagnosing, not forecasting.

These remarks suggest that the word "forecast" may one day be dropped. The Council of Economic Advisers, especially, should join such a movement. If this agency, protected by the principle of serendipity, ever destroys public confidence in itself and therefore loses its usefulness, it will be because it "forecast" when it should have "diagnosed."

A Paradox of Forecasting

A forecast correctly made and effectively acted upon cannot then be evaluated by customary norms.

This is a paradox that has been pointed out by economists. Let us say our ability to forecast is perfected and measures to cope with fluctuations become completely effective. The undesirable situation is then averted. With this goes the chance to check the correctness of our forecast. Thus everyone is still looking for the great depression almost universally forecast as an aftermath of World War II. The absence of such a depression is generally considered to establish an error of forecasting. It might well reflect the fact that so many things were done that averted depression that it could not have occurred. If fear of depression prompted veterans' programs, liberalized social security, and other measures, then the forecast perhaps was partially negated by the action taken. This, added to pent-up purchasing power, gave us prosperity.

Most paradoxes can be resolved by careful examination. This one turns out to be no exception. When our forecasts are so accurate that we will credit them with being correct even after we have acted to invalidate them, then our state of knowledge in this area will be complete. It gets back to the distinction between forecasting and diagnosis. Long before complete knowledge is reached we may cease to forecast in an area of events and switch over to diagnosis. The fact that your illness was diagnosed by the doctor, action was taken, and you got well is not judged to be proof that the doctor was wrong when he said you would be very ill without treatment. The state of knowledge or performance is taken to have advanced so that chance of error — the fact forecasting must deal with — has been greatly reduced. Forecasting is then no longer necessary or appropriate.

This article has discussed the useful forecast, the forecast that has no usability, and the effect on forecasting of our changing knowledge. Other issues might well be discussed. Who makes the significant forecast? This question is asked in the light of the capacity of big government, big business, and big labor to act in this area. What form must the usable forecast take? As more questions of this kind are answered, progress will be made toward better forecasting and a better application of forecasting to the solution of our economic problems.

Business Briefs

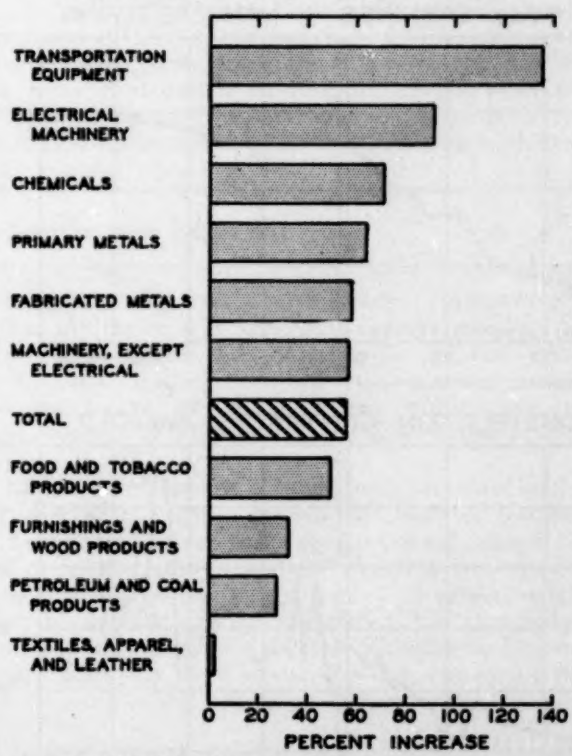
(Continued from page 5)

of Commerce. These show an over-all rise of 56 percent in value added by manufacturing from 1947 to 1954.

The growth was far from evenly spread, as may be seen in the chart below. Transportation equipment expanded the most of any of the major categories; this was the result of a doubling in the value added to motor vehicles and a 540-percent increase in aircraft and parts. The value of textile mill products actually declined by 12 percent between 1947 and 1954, although this is balanced by growth in apparel and leather products as indicated in the chart.

In addition to detailed data about the industries in the chart, the Census reports cover pulp and paper products, printing and publishing, rubber products, stone, clay, and glass products, and instruments. Information is broken down into states and local areas and includes employment, payrolls, material costs, and capital expenditures as well as value added by manufacture.

MANUFACTURING GROWTH, 1947-54



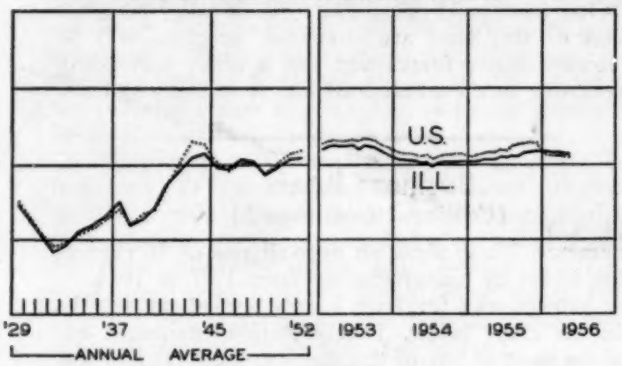
Source: *1954 Census of Manufactures.*

The University of Chicago Libraries
Periodical Division, Harper, M22
Chicago 37, Ill.

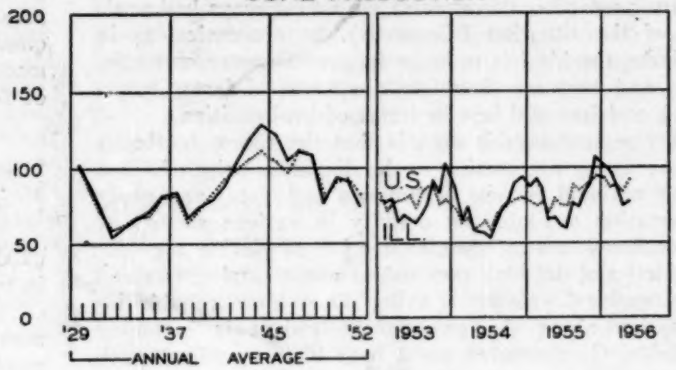
INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

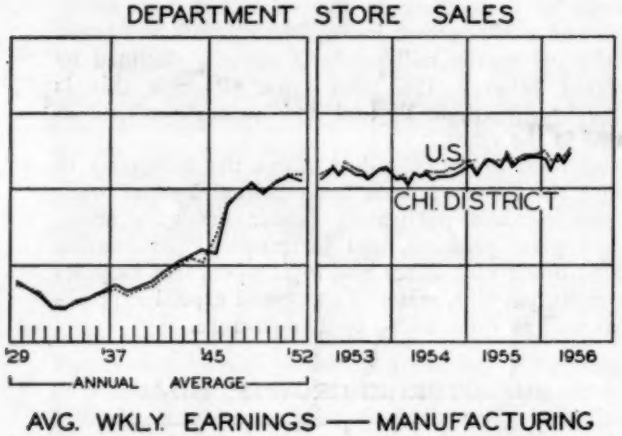
EMPLOYMENT-MANUFACTURING



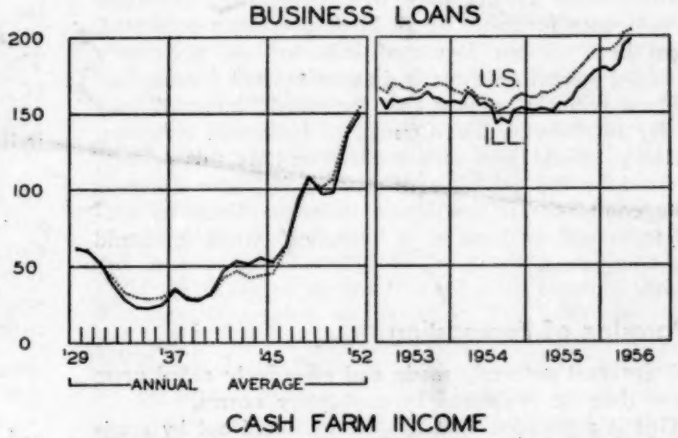
COAL PRODUCTION



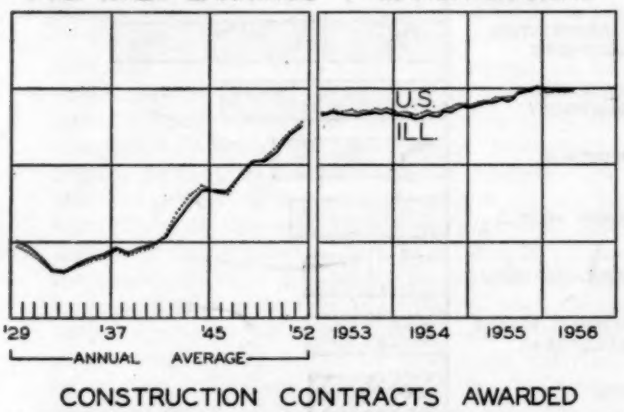
DEPARTMENT STORE SALES



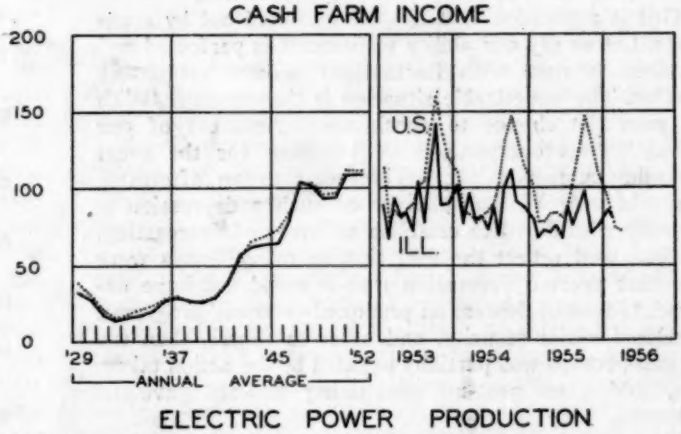
BUSINESS LOANS



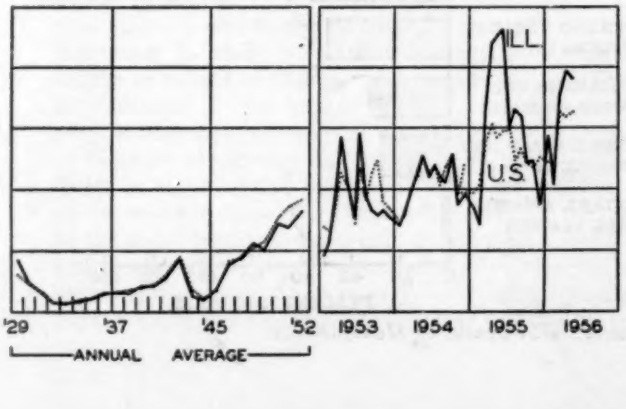
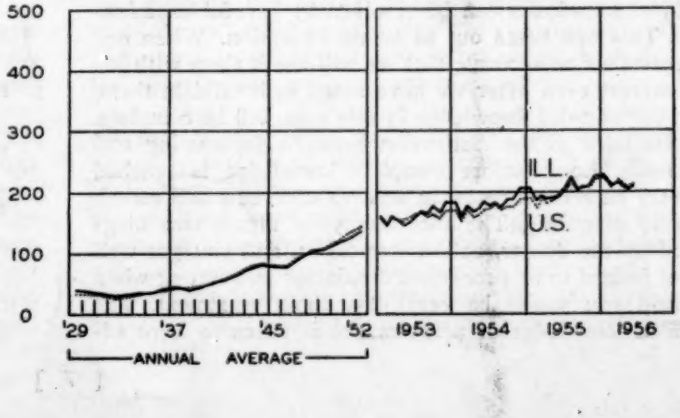
AVG. WKLY. EARNINGS — MANUFACTURING



CASH FARM INCOME



CONSTRUCTION CONTRACTS AWARDED



ELECTRIC POWER PRODUCTION